BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 1997) Docket No. R97-1

ERRATA TO DIRECT TESTIMONY OF DR. JOHN HALDI (VP/CW-T-1)
ON BEHALF OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.
(February 11, 1998)

The attached errata reflect changes associated to the responses to MOAA/VP/CW-T1-1-11, and also contain certain other minor changes. Most corrections deal with changes necessitated by a miscopying of ECR High-Density and Saturation DDU-entry volumes in table A-6 at p. A-13.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served by hand delivery or mail the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

William J. Olson

February 11, 1998

effect of weight on cost has not been treated as an important consideration with respect to determining the unit cost of letters.[6]

The current rate schedule for Standard A ECR letters consists of 16 different rate cells.[7] The rate cells are distinguished by (i) presort condition, and (ii) point of entry into the postal network. Each rate cell is thought of, appropriately, as a separate product. My estimated Test Year volume-variable unit costs for Standard A ECR letters, including contingency, are shown in Table 1. The unit costs range from 3.57 cents for a Saturation letter entered at the delivery unit, to 7.38 cents for a Basic presort letter entered upstream of the Destinating BMC.

Shipping costs. Differences in the unit costs, as shown in Table 1, reflect the Postal Service's costs incurred by mail not entered at delivery units.[8] Thus, when developing costs from the bottom up, those volume-variable costs that are **incurred** for mail which is not dropshipped, and must instead be handled and transported by the Postal Service, are presumed here

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[6] Even within the letters category, weight may cause costs to vary. Since weight is not part of the rate design for letters, however, its effect is subsumed within the average per-piece cost. The effect of weight must be, and is, taken into account in the development of bottom up costs for nonletters.

[7] USPS-T-36, p. 31.

[8] Cost incurrence for postal transportation and dock handling expense is computed on a per-pound basis, consistent with the cost avoidance developed in LR-H-111, and is based on estimated actual weight of the mail in each rate cell; *i.e.*, cost incurrence is not estimated at the breakpoint weight of 3.3 ounces. *See* Appendix A for more details.

to be equal to the costs **avoided** by mail that is dropshipped to destinating facilities. Stated succinctly, cost incurrence and cost avoidance are treated as the two sides of the same coin.

Sortation costs. Differences in the unit costs in Table 1 also reflect the Postal Service's presort cost differentials. In my bottom up approach, costs avoided by presortation likewise have been presumed to equal the volume-variable costs which the Postal Service must incur to achieve an equivalent level of sortation. Here too, cost incurrence and cost avoidance are treated as two sides of the same coin.

Conformity with CRA costs. Unit costs derived by this bottom up process, when multiplied by the volume in each respective category, are slightly (5.7 percent) less than the estimate of total CRA volume-variable costs for ECR letters.[9] Accordingly, unit costs are adjusted upward by a uniform amount (0.3193 cents per piece) to conform with the CRA total. A detailed explanation regarding development of the volume-variable unit costs in Table 1 is contained in Appendix A.

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[9] *See* Appendix A for the details concerning development of CRA costs for ECR letters and nonletters.

Table 1

Volume-Variable Unit Cost for
Standard A ECR Letters, With Contingency
(test year, cents per piece)

	No Destination	- Entry at Destinating -		
	Entry	BMC	SCF	DDU
Basic	7.38	7.13	6.90	6.74
Automation	6.77	6.52	6.29	6.13
High-Density	5.33	4.95	4.74	4.48
Saturation	4.29	3.84	3.76	3.57

Source: Appendix A, Table A-13

Development of Bottom up Costs for ECR Nonletters

Nonletters below the breakpoint. Standard A ECR nonletters can weigh up to 16 ounces. With respect to weight they are less homogeneous than letters. Rates for ECR nonletters vary with weight of the mailpiece. Nonletters that weigh less than the breakpoint (3.3 ounces) now pay a flat per-piece rate, the same as letters.[10] All costs for each rate cell below the

[10] The proposed parcel surcharge is not part of the current rate structure.

To illustrate the methodology used here to develop bottom up volume-variable unit costs for Standard A ECR nonletters, two different cases are presented below. In Case I, moderately high weight-related costs are assumed, and in Case II, moderately low weight-related costs are assumed.[13] As explained below, in the absence of solid evidence concerning the weight-cost relationship, both assumptions are arbitrary. The two cases are included to deal with the reality of the Postal Service's failure to advance either a credible theory or reliable empirical evidence on the relationship between weight and cost.

Conformity with CRA costs. In both cases, the unit cost for all ECR nonletters has been adjusted to equal estimated CRA costs for nonletters. This serves as a control to prevent shifting of costs from letters to nonletters, and vice versa.[14]

Case I: High weight-related costs. In Case I, mail processing and delivery costs equal to 2.33 cents per piece are assumed to be weight-related. The effect of this assumption is to shift costs from lighter-weight nonletters below the 3.3 ounce breakpoint to heavier-weight nonletters above the

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[13] Some city carrier street time costs may be weight-related; *see* NAA/USPS-T36-17, redirected to the Postal Service (Tr. 15/7708).

[14] The small, final adjustment to conform to total CRA costs for nonletters is treated as weight-related.

ECR Letters

The following discussion makes use of the bottom up cost figures computed for the 16 rate cells for Standard A ECR Mail, as presented in the preceding Section III of this testimony.

Margins. The implicit margins for the rates proposed by the Postal Service for each ECR letter rate cell are shown at Table 4, Part A. For all ECR letters, the average margin, or contribution to other costs, is 8.32 cents (*see* Table 3).[31] Margins range from a low of 6.66 cents to a high of 9.63 cents per piece.

Mark-Ups. The implicit percentage mark-ups for Standard A ECR letter mail are shown in Table 4, Part B. For all ECR letters, the average mark-up is 144 percent (*see* Table 3). Because the highest margin is imposed on Saturation mail — which has the lowest unit cost — the implicit mark-ups on ECR letter mail span a wide range, from 99 to 213 percent. The implicit mark-ups on the different rate categories are seen to vary widely around the average.

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[31] The Postal Service did not calculate unit contribution at this level of detail. Response of witness Moeller to NAA/USPS-T36-35 (Tr. 6/2795).

Table 4

Margins and Mark-Ups Implicit in Postal Service Proposed Rates for ECR Letters

A. Margins
(cents per piece)

	No Destination Entry	- Entry at Destinating - DBMC	DSCF	DDU
Basic	8.32	7.07	7.00	6.66
Automation	9.63	8.38	8.31	7.97
High-Density	8.97	7.85	7.76	7.52
Saturation	9.11	8.06	7.84	7.53

B. Mark-Ups
(percent)

	No Destination Entry	- Entry at Destinating - DBMC	DSCF	DDU
Basic	113%	99%	101%	99%
Automation	142	129	132	130
High-Density	168	159	164	168
Saturation	212	210	209	211

Sources: Proposed rates from USPS-T-36, p. 31.
Unit Costs from ECR letters, Table 1.

Table 6

VP-CW Proposed
Enhanced Carrier Route Rates
(in dollars)

	No Destination Entry	BMC	SCF	DDU
Letters				
Basic	0.168	0.153	0.150	0.145
Automation	0.161	0.146	0.143	0.138
High-Density	0.143	0.128	0.125	0.120
Saturation	0.130	0.115	0.112	0.107
Nonletters (piece-rated)				
Basic	0.167	0.152	0.149	0.144
High-Density	0.150	0.135	0.132	0.127
Saturation	0.138	0.123	0.120	0.115
Nonletters (pound-rated)				
Per Piece:				
Basic	0.058			
High-Density	0.041			
Saturation	0.029			
Per Pound:				
Basic	0.530	0.458	0.442	0.420
High-Density	0.530	0.458	0.442	0.420
Saturation	0.530	0.458	0.442	0.420

Table 7

Margins and Mark-ups From
VP-CW Proposed ECR Letter Rates

A. MARGINS
(cents)

	No Destination Entry	- Entry at Destinating - DBMC	DSCF	DDU
Automation	9.3	8.1	8.0	7.7
Basic	9.4	8.2	8.1	7.8
High-Density	9.0	7.9	7.8	7.5
Saturation	8.7	7.7	7.4	7.1

B. MARK-UPS

	No Destination Entry	- Entry at Destinating - DBMC	DSCF	DDU
Automation	138%	124%	127%	125%
Basic	128%	115%	117%	115%
High-Density	168%	159%	164%	168%
Saturation	203%	200%	198%	200%

incurred (Table A-9). Dividing total costs (Table A-9) by TYAR volumes (Table A-6) gives unit shipping costs (Table A-10).

Unit Costs for ECR Letters

Tables A-11 and A-12: Unadjusted TYAR Total Unit Cost and Unadjusted TYAR Total Cost. The sum of mail processing and delivery costs (Table A-1), plus shipping costs (Table A-10) results in **unadjusted** total unit costs (Table A-11). Multiplying unit costs (Table A-11) by TYAR volumes (Table A-6) gives an **unadjusted** total cost of $463,184,000. Subtracting this from the CRA After Rates Total Cost for Letters, $491,006,000 (Table A-2) results in a difference of $27,822,000. Dividing this $27,822,000 difference by total TYAR letter volume of 8,712,800,000 (Table A-6), gives a per-piece adjustment of 0.3193 cents.

Table A-13: Adjusted TYAR Unit Costs. Adding the per-piece adjustment of 0.3193 cents (Table A-12) to **unadjusted** unit costs (Table A-11) gives the **adjusted** unit costs for Standard A Regular Rate ECR Letters shown in Table A-13.

Unit Costs for ECR Nonletters

Tables A-14 and A-20: TYAR Unit Cost Less 2.33 Cents Per Piece (Table A-14) and 0.5825 Cents Per Piece (Table A-20). Unit mail processing and delivery costs (Table A-1, columns 1 and 2) together with unit

Table A-6

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Standard A ECR Mail

1998 TYAR Volume
(pieces)

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-Density	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
Subtotal	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000
NONLETTERS					
Piece-Rated					
Basic	564,897,000	1,724,261,000	3,493,243,000	115,536,000	5,897,937,000
High-D	29,049,000	42,541,000	465,253,000	213,812,000	750,655,000
Saturation	281,107,000	285,819,000	2,229,350,000	3,097,689,000	5,893,965,000
Subtotal	875,053,000	2,052,621,000	6,187,846,000	3,427,037,000	12,542,557,000
Pound-Rated					
Basic	251,474,150	1,087,339,934	3,367,276,976	56,676,939	4,762,768,000
High-D	5,768,949	4,074,572	147,773,845	245,805,634	403,423,000
Saturation	50,048,411	5,661,585	388,837,658	1,820,086,346	2,264,634,000
Subtotal	307,291,511	1,097,076,092	3,903,888,479	2,122,568,919	7,430,825,000
Subtotal, NONLETTERS					19,973,382,000
TOTAL VOLUME					28,686,182,000

Source: Witness Moeller, USPS-T-36, WP 1, page 20.

Table A-7

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Standard A ECR Mail

1998 TYAR Weight
(pounds)

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS [1]					
Automation	31,629,641	69,796,722	27,807,896	1,278,297	130,512,556
Basic	38,723,352	84,393,759	69,962,630	2,972,659	196,052,400
High-Density	2,432,961	3,667,059	22,703,341	2,317,687	31,121,049
Saturation	19,370,010	11,950,512	139,846,562	27,816,048	198,983,132
Subtotal	92,155,964	169,808,052	260,320,430	34,384,691	556,669,137
NONLETTERS					
Piece-Rated [1]					
Basic	58,715,245	231,948,053	451,194,240	12,355,023	754,212,560
High-Density	3,012,890	4,757,511	59,224,059	22,444,096	89,438,556
Saturation	23,709,842	20,539,334	255,661,977	433,686,352	733,597,506
Subtotal	85,437,977	257,244,898	766,080,275	468,485,471	1,577,248,622
Pound-Rated [2]					
Basic	79,660,806	344,738,349	1,067,567,737	18,005,108	1,509,972,000
High-Density	1,949,739	1,367,604	49,733,368	82,722,289	135,773,000
Saturation	14,833,445	1,651,620	115,032,091	538,486,844	670,004,000
Subtotal	96,443,990	347,757,573	1,232,333,196	639,214,241	2,315,749,000
Total Nonletters	181,881,967	605,002,471	1,998,413,471	1,107,699,712	3,892,997,622
TOTAL WEIGHT	274,037,931	774,810,524	2,258,733,901	1,142,084,403	4,449,666,759

Sources:

[1] Test Year After Rates Volumes (Table A-6) multiplied by Base Year Weight/Piece, Table A-5.

[2] Pound-rated pieces: Moeller, WP 1, page 20.

Table A-9

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Standard A ECR Mail

Total Shipping Costs Incurred
on Account of Non-Destination Entry, TYAR

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	4,361,727	3,315,344	761,989	0	8,439,061
Basic	5,339,950	4,008,704	1,917,108	0	11,265,762
High-Density	335,505	174,185	622,114	0	1,131,805
Saturation	2,671,124	567,649	3,832,059	0	7,070,833
Subtotal	12,708,308	4,750,538	6,371,281	0	27,907,460
NONLETTERS					
Piece-Rated					
Basic	8,096,832	11,017,533	12,363,572	0	31,477,937
High-D	415,478	225,982	1,622,851	0	2,264,310
Saturation	3,269,587	975,618	7,005,620	0	11,250,825
Subtotal	11,781,897	12,219,133	20,992,042	0	44,993,072
Pound-Rated					
Basic	10,985,225	16,375,072	29,253,366	0	56,613,663
High-D	268,869	64,961	1,362,788	0	1,696,618
Saturation	2,045,532	78,452	3,152,096	0	5,276,080
Subtotal	13,299,626	16,518,485	33,768,250	0	63,586,361
TOTAL COST					136,486,893

Sources:

[1] Test Year After Rates pounds, Table A-7.

[2] Shipping Costs per pound, Table A-8 (total column).

Table A-12

Standard A ECR Letters

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Unadjusted TYAR Total Cost
($,000)

	No Dest. Entry	BMC	SCF	DDU	TOTAL
Automation	43,566	52,515	28,288	2,421	126,789
Basic	58,390	69,760	78,460	6,222	212,832
High-Density	1,987	1,741	10,874	2,721	17,323
Saturation	14,714	7,356	69,041	15,129	106,240
Subtotal	$ 118,656	$ 131,372	$ 186,663	$ 26,492	$ 463,184

TARGET: CRA AFTER Rates Total Cost for Letters (Table A-2, Column 3) $ 491,006

Difference $ 27,822

Per Piece Adjustment = Difference/total Volume (cents) **0.3193**

Sources:

[1] TYAR Volume (pieces), Table A-6.

[2] TYAR Total Unadjusted Unit Costs, Table A-11.

Table A-13

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Standard A ECR Letters

Adjusted TYAR Total Unit Cost
(cents per piece)

A: WITHOUT CONTINGENCY

	No Dest. Entry	BMC	SCF	DDU
Automation	6.7047	6.4526	6.2245	6.0654
Basic	7.3096	7.0575	6.8294	6.6703
High-Density	5.2766	4.8973	4.6894	4.4394
Saturation	4.2451	3.8011	3.7212	3.5324

B: WITH CONTINGENCY

	No Dest. Entry	BMC	SCF	DDU
Automation	6.7718	6.5172	6.2867	6.1261
Basic	7.3827	7.1281	6.8977	6.7370
High-Density	5.3293	4.9463	4.7363	4.4838
Saturation	4.2876	3.8391	3.7585	3.5678

Sources:

[1] TYAR Unadjusted Total Unit Costs, Table A-11.

[2] Per-piece adjustment, Table A-12.

Table B-1

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Standard A ECR Mail

Analysis of Postal Service Proposed Rates
for ECR Letters
(cents)

	No Dest. Entry	BMC	SCF	DDU
Proposed Rates [1]				
Automation	16.4	14.9	14.6	14.1
Basic	15.7	14.2	13.9	13.4
High-Density	14.3	12.8	12.5	12.0
Saturation	13.4	11.9	11.6	11.1
Estimated Costs [2]				
Automation	6.77	6.52	6.29	6.13
Basic	7.38	7.13	6.90	6.74
High-Density	5.33	4.95	4.74	4.48
Saturation	4.29	3.84	3.76	3.57
Estimated Margin [3]				
Automation	9.63	8.38	8.31	7.97
Basic	8.32	7.07	7.00	6.66
High-Density	8.97	7.85	7.76	7.52
Saturation	9.11	8.06	7.84	7.53
Estimated Mark-up [4]				
Automation	142%	129%	132%	130%
Basic	113%	99%	102%	99%
High-Density	168%	159%	164%	168%
Saturation	213%	210%	209%	211%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-13.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

In part D, rates developed for BMC dropship were rounded. Shipping costs of 1.5 cents were added to develop rates in the No Destination Entry column. Rate differentials of 0.3 and 0.5 cents, respectively, were subtracted to develop the SCF and DDU rates. These are the initial adjusted rates.

Table C-3: Standard A ECR Letters Development of VP-CW Proposed Rates. This table is a continuation of Table C-2. Part E reproduces TYAR Volumes from Table A-6. These volumes multiplied by the initial adjusted rates (Table C-2, part D) result in TYAR initial projected revenues of $1,223,728,727, as shown in part F. Subtracting target revenues for letters, $1,210,277,000 (Table C-12) results in a difference from the initial rates of $13,451,727, or 0.15 cents per piece. Adjusting initial rates by this amount results in the proposed rates for letters shown in part G.

The difference between proposed rates and the current rates (Table C-1, part D), stated as a percentage, is shown in part H. The presort discount from the Basic Rate is shown as the differential in part I.

Multiplying the final rates in part G by the TYAR volumes gives us the TYAR projected revenues of $1,203,216,740, as shown in part J. This is a slight decrease of $7,060,260, or 0.6 percent, from the Postal Service's proposed rates TYAR revenues of $1,210,277,000.

VP-CW Proposed Rates for ECR Nonletters

Tables C-4 through C-12 support development of VP-CW's proposed rates for ECR nonletters.

Tables C-4 and C-5: Standard A ECR Mail TYAR Volume and Weight. TYAR volumes and weight are directly from Tables A-6 and A-7, respectively.

Table C-6: Standard A ECR Mail Postal Service Proposed Rates.

Table C-7: Standard A ECR Nonletters Postal Service *Proposed Rates TYAR Projected Revenues and Margins.* Table C-7 gives the nonletter TYAR projected revenues, derived by multiplying the Postal Service's proposed rates (Table C-6) by the volumes (Table C-4) and weight (for pound-rated pieces). The margin or expected contribution ($1,678,365,324), shown at the bottom of Table C-7, is obtained by subtracting TYAR total projected costs (Table C-9).

Table C-8: Standard A ECR Nonletters TYAR Unit Costs with Contingency. The unit costs shown in Table C-8 are directly from Appendix A, Table A-18 (B).

Table C-9: Standard A ECR Nonletters TYAR Total Cost. Multiplying the unit TYAR costs (Table C-8) by TYAR volumes (Table C-4) and weights (Table C-5) gives TYAR total projected costs.

Table C-10: Standard A ECR Nonletters VP-CW Proposed Rates.

Table C-11: Standard A ECR Nonletters VP-CW Proposed Rates TYAR Projected Revenues and Margin. Multiplying the VP-CW proposed rates (Table C-10) by the volumes (Table C-4) and weights (Table C-5) gives TYAR projected revenues. Deducting the total TYAR costs (Table C-9) leaves the margin, or expected contribution to institutional costs, of $1,682,409,408, which is $4,044,084 more than the contribution of $1,678,365,324 developed from projections of the Postal Service's proposed rates.

Table C-12: Standard A ECR Mail TYAR Projected Revenue. Comparing the contributions projected by USPS and VP-CW proposed rates shows that the rates proposed by VP-CW provide a combined margin that is essentially equal but slightly less (by $3,016,176) than the margin from rates proposed by the Postal Service.

	USPS Proposed Rates	VP-CW Proposed Rates	Difference
LETTER MARGIN	$ 1,210,277,000	$ 1,203,216,740	$ -7,060,260
NONLETTER MARGIN	1,678,365,324	1,682,409,408	4,044,084
TOTAL MARGIN	**$ 2,888,642,324**	**$ 2,885,626,148**	**$ -3,016,176**

Table C-1

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Standard A ECR Letters
TYAR Total Unit Costs and Current Rates
(cents per piece)

A: UNIT COSTS WITHOUT CONTINGENCY [1]

	No Dest. Entry	BMC	SCF	DDU
Automation	6.7047	6.4526	6.2245	6.0654
Basic	7.3096	7.0575	6.8294	6.6703
High-D	5.2766	4.8973	4.6894	4.4394
Saturation	4.2451	3.8011	3.7212	3.5324

B: UNIT COSTS WITH CONTINGENCY [1]

	No Dest. Entry	BMC	SCF	DDU
Automation	6.7718	6.5172	6.2867	6.1261
Basic	7.3827	7.1281	6.8977	6.7370
High-D	5.3293	4.9463	4.7363	4.4838
Saturation	4.2876	3.8391	3.7585	3.5678

C: PRESORT COST DIFFERENTIALS [1]

	Entry	BMC	SCF	DDU
Automation	0.61	0.61	0.61	0.61
Basic	--	--	--	--
High-D	2.05	2.18	2.16	2.25
Saturation	3.10	3.29	3.14	3.17

D: CURRENT RATES [2]

	Entry	BMC	SCF	DDU
Automation	14.6	13.3	12.8	12.3
Basic	15.0	13.7	13.2	12.7
High-D	14.2	12.9	12.4	11.9
Saturation	13.3	12.0	11.5	11.0

Sources:

[1] Appendix A, Table A-13.

[2] Docket No. MC95-1, *Opinion and Recommended Decision.*

Table C-2

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Standard A ECR Letters
Test Year Initial Target Rates
(cents per piece)

A: WITH CONSTANT AMOUNT ADDED

Margin = 8.199

	No Dest. Entry	BMC	SCF	DDU
Automation	14.9708	14.7162	14.4857	14.3251
Basic	15.5817	15.3271	15.0967	14.9360
High-D	13.5283	13.1453	12.9353	12.6828
Saturation	12.4866	12.0381	11.9575	11.7668

B: WITH CONSTANT PERCENT APPLIED

Coverage = 2.4405

	No Dest. Entry	BMC	SCF	DDU
Automation	16.5265	15.9051	15.3428	14.9507
Basic	18.0175	17.3962	16.8338	16.4417
High-D	13.0063	12.0714	11.5590	10.9428
Saturation	10.4638	9.3694	9.1725	8.7071

C: 90% FIXED; 10% CONSTANT PERCENT

	No Dest. Entry	BMC	SCF	DDU
Automation	15.1263	14.8351	14.5714	14.3876
Basic	15.8253	15.5340	15.2704	15.0866
High-D	13.4761	13.0379	12.7977	12.5083
Saturation	12.2843	11.7713	11.6790	11.4603

D: ADJUSTED TO REFLECT DEST. ENTRY

	No Dest. Entry	BMC	SCF	DDU
Automation	16.3	14.8	14.5	14.0
Basic	17.0	15.5	15.2	14.7
High-D	14.5	13.0	12.7	12.2
Saturation	13.3	11.8	11.5	11.0

Table C-3

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Standard A ECR Letters
Development of VP-CW Proposed Rates

E: (TYAR Volume - Pieces)

LETTERS	No Dest. Entry	BMC	SCF	DDU	Total
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-D	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000

F: INITIAL REVENUES

LETTERS					
Automation	111,211,803	126,720,708	69,460,075	5,897,500	313,290,086
Basic	142,000,830	160,469,640	183,192,984	14,400,267	500,063,721
High-D	5,811,165	4,945,200	31,601,537	8,056,636	50,414,538
Saturation	49,847,868	24,929,624	233,389,280	51,793,610	359,960,382
Subtotal	308,871,666	317,065,172	517,643,876	80,148,013	**1,223,728,727**

Target Revenues from letters (Table C-12)	1,210,277,000
Difference	13,451,727
Per piece difference	0.001543904

G: FINAL ADJUSTED PROPOSED 90% FIXED, 10% PERCENTAGE RATES

	No Dest. Entry	BMC	SCF	DDU
Automation	16.1	14.6	14.3	13.8
Basic	16.8	15.3	15.0	14.5
High-D	14.3	12.8	12.5	12.0
Saturation	13.0	11.5	11.2	10.7

H: PERCENT CHANGE FROM CURRENT RATES

Automation	10.3%	9.8%	11.7%	12.2%
Basic	12%	12%	14%	14%
High-D	1%	-1%	1%	1%
Saturation	-2%	-4%	-3%	-3%

I: PRESORT DIFFERENTIAL

Automation	0.7	0.7	0.7	0.7
Basic	--	--	--	
High-D	2.5	2.5	2.5	2.5
Saturation	3.8	3.8	3.8	3.8

J: INITIAL REVENUES

LETTERS					
Automation	109,847,241	125,008,266	68,502,005	5,813,250	309,170,762
Basic	140,330,232	158,399,064	180,782,550	14,204,345	493,716,191
High-D	5,731,011	4,869,120	31,103,875	7,924,560	49,628,566
Saturation	48,723,480	24,295,820	227,300,864	50,381,057	350,701,221
Subtotal	304,631,964	312,572,270	507,689,294	78,323,212	**1,203,216,740**

Table C-4

Revised 2/11/98

Standard A ECR Mail
TYAR Volume
(pieces)

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-D	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
Subtotal	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000
NONLETTERS					
Piece-Rated					
Basic	564,897,000	1,724,261,000	3,493,243,000	115,536,000	5,897,937,000
High-D	29,049,000	42,541,000	465,253,000	213,812,000	750,655,000
Saturation	281,107,000	285,819,000	2,229,350,000	3,097,689,000	5,893,965,000
Subtotal	875,053,000	2,052,621,000	6,187,846,000	3,427,037,000	12,542,557,000
Pound-Rated					
Basic	251,474,150	1,087,339,934	3,367,276,976	56,676,939	4,762,768,000
High-D	5,768,949	4,074,572	147,773,845	245,805,634	403,423,000
Saturation	50,048,411	5,661,585	388,837,658	1,820,086,346	2,264,634,000
Subtotal	307,291,510	1,097,076,092	3,903,888,479	2,122,568,919	7,430,825,000
Subtotal, NONLETTERS					19,973,382,000
TOTAL VOLUME					28,686,182,000

Source:

[1] Appendix A, Table A-6.

As explained above, the Postal Service faces multiple weight-cost relationships. Minimal presort mail that is not dropshipped and is entered upstream in the postal network will likely incur far more weight-related bulk handlings than will, say, saturation mail, whether entered upstream or at a destination SCF or DU. Thus, a "global" study that seeks to estimate THE weight-cost relationship is fatally flawed from the outset.

The Postal Service should study the weight-cost relationship for mail entered into the postal network **at identical points**. If lighter-weight pieces are entered upstream, and heavier-weight pieces are dropshipped, any study that does not control for this factor will be biased, perhaps heavily so. Unfortunately, IOCS tallies cannot record where mail is entered into the postal network. Hence, a study based on IOCS tallies cannot control for this critical element.

Witness Moeller has observed that a properly-designed study must control for variations "in the amount of drop shipping, presortation, average haul of non-dropshipped mail, and other factors, all of which could cause variations in the unit cost by weight increment."[6] LR-H-182 did not control for any of these factors.

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weight-cost relationship.

[6] Response of the Postal Service to NAA/USPS-T36-22 (Tr. 15/7714).